

VZCZCXRO8228  
PP RUEHDBU  
DE RUEHTA #1438/01 1490314  
ZNY CCCCC ZZH  
P 290314Z MAY 07  
FM AMEMBASSY ASTANA  
TO RUEHC/SECSTATE WASHDC PRIORITY 9562  
INFO RUCNCIS/CIS COLLECTIVE 0180  
RUCPDOG/DEPT OF COMMERCE WASHDC  
RUEAIIA/CIA WASHDC  
RUEBAAA/DEPT OF ENERGY WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 ASTANA 001438

SIPDIS

NOFORN  
SIPDIS

DEPT FOR EB/ESC; SCA/CEN (O'MARA)

E.O. 12958: DECL: 05/28/2015

TAGS: [ENRG](#) [EPET](#) [KZ](#) [RS](#)

SUBJECT: KAZAKHSTAN SIGNS AGREEMENT ON CREATION OF  
INTERNATIONAL URANIUM ENRICHMENT CENTER

REF: A. 06 ALMATY 602

[1](#)B. 06 ALMATY 2673

Classified By: Acting DCM Deborah Mennuti; reasons 1.5(b) and (d).

[1](#)1. (C) Summary: On May 10 representatives of the Government of Kazakhstan and the Government of Russia signed an Inter-governmental Agreement to set up an international uranium enrichment center, under International Atomic Energy Agency (IAEA) control, in Angarsk, Russia. For Kazakhstan's state-owned atomic energy company, KazAtomProm, the agreement represents an important step toward achieving its stated goal of completing the nuclear fuel cycle, and thereby capturing additional value in the processing of its natural uranium reserves. In addition to completing the fuel cycle, KazAtomProm is driven to become the world's largest uranium-producing company, with company president Mukhtar Dzhakishev announcing a production target of 18,000 tons of natural uranium by 2010. KazAtomProm has signed several uranium production agreements toward these ends in the past year, primarily with Russian and Japanese companies. According to a high-level KazAtomProm executive, the company has also finalized terms of a deal to buy 10% of Westinghouse from Toshiba. End summary.

International Uranium Enrichment Center  
-----

[1](#)2. (SBU) On May 10, Kazakhstan's Energy Minister and Russia's Director of the Federal Atomic Energy Agency (ROSATOM) signed an Inter-governmental Agreement (IGA) on the creation of an international uranium enrichment center in Angarsk, Russia. The stated goal of the center is to provide participating states with guaranteed access to enrichment facilities for the purpose of creating nuclear fuel. (The agreement also stipulates that participating states may, with IAEA and Russian government approval, create stockpiles of enriched uranium under the center's auspices.)

[1](#)3. (SBU) The agreement specifies that the enrichment center will be established using existing facilities at the Angarsk Electrolysis Chemical Combine; media quotes from ROSATOM's Director suggest that, while initial production will be launched using the Combine's "unused capacities," the Center's operations could be expanded in the future to new, or other existing enrichment facilities -- likely with funding from new partners. The agreement states that additional countries without enrichment facilities of their own may join the joint venture, provided they are in compliance with the Nuclear Non-Proliferation Treaty. While Kazakhstan and future partner governments may own equity in

the center, and participate in its management, the agreement prohibits the transfer of Russian enrichment technology to Kazakhstan and future joint venture partners.

14. (C) On May 18, KazAtomProm Vice President Dmitry Parfenov told Energy Officer that the IGA had been "based on" commercial negotiations between KazAtomProm and Russia's Techsnabexport (TENEX). TENEX and KazAtomProm are already majority shareholders (49.33% each) in the Zarechnoye mining joint venture in Kazakhstan (where uranium production began in December 2006) and in a new, 2006 JV to exploit Kazakhstan's Budenovskoye mine, where production is scheduled to begin in 2008. TENEX also signed a fifteen-year contract in 2006 to deliver Zarechnoye uranium to Russia (exact destination undisclosed) for enrichment. KazAtomProm and TENEX's presence in each of these deals lends evidence to the widespread conclusion that KazAtomProm envisions using the Angarsk center for the enrichment of future volumes of uranium mined at Zarechnoye and Budenovskoye, for onward sale to interested nations.

#### KazAtomProm: Completing the Fuel Cycle

-----

15. (SBU) KazAtomProm President Mukhtar Dzhakishev has been outspoken about his company's ambition to complete the nuclear-fuel cycle, articulating the goal as a logical business strategy: maximizing the value added in Kazakhstan's natural uranium reserves. The Angarsk deal clearly gives KazAtomProm a share of the value-added by the uranium enrichment process, while the deal's prohibition on enrichment technology transfer appears to adhere to international non-proliferation standards, while also having the effect of precluding KazAtomProm from emerging as a direct competitor to Russia's enrichment industry. In

ASTANA 00001438 002 OF 002

general, both Dzhakishev and officials of both governments have explained the Angarsk and Budenovskoye JV's (along with a third, to design and market small- and medium sized reactors, announced simultaneously in July 2006) as exploiting a complementarity in the Russian and Kazakhstani nuclear industries created in the Soviet era. In a December 2006 interview with BBC, for example, Dzhakishev credited the joint ventures as the outcome of a realization that, "...during Soviet times our enterprises were meant to be part of...a single nuclear-fuel cycle, and that both the Russian and Kazakh sides can, by being mutually complementary, get a competitive advantage in the market."

16. (C) However, it is clear that KazAtomProm is not limiting its pursuit of the complete nuclear fuel cycle to those projects which "complement" existing Russian ventures. Parfenov told Energy Officer that KazAtomProm had recently finalized negotiations to purchase 10% of Westinghouse from Toshiba; the deal, he said, was awaiting USG approval. Prior to Toshiba's October 2006 acquisition of Westinghouse, KazAtomProm partnered with General Electric to make a competitive bid for the company. In a January 2006 interview with "Nuclear.Ru" Dzhakishev explained that, if KazAtomProm succeeded in its bid to buy Westinghouse, the company would enter into direct competition with Russia's TVEL in the production of fuel assemblies. KazAtomProm is also pursuing deals in other aspects of the fuel cycle with non-Russian partners. Parfenov told Energy Officer that the company would soon announce a "Memorandum of Intent" with Canada's CAMECO for the creation of a conversion facility in Kazakhstan, "or elsewhere, if it isn't profitable in Kazakhstan." The April visit of Japan's Minister of Economy, Trade, and Industry, Akira Amari, Parfenov explained, had yielded a "strategic understanding" with the Japanese companies NFI and Sumitomo on "the most difficult part of the fuel cycle," the fabrication of fuel assemblies. (Note: The Japanese Minister's visit also resulted in an announcement by Dzhakishev that KazAtomProm would dramatically increase the exports of uranium and uranium value-added products to Japan,

to reach 40% of the market share of the former by 2010. And on April 24, Japan's Marubeni Corporation, Tokyo Electric Power Company, and Chubu Electric Power Company announced their joint acquisition of an indirect ownership interest in the companies developing Kazakhstan's Kharasan mine, projected to produce 750 tons of uranium by 2012. End note.)

Uranium Production: Doubling in Three Years?

17. (U) According to the Ministry of Energy and Mineral Resources, Kazakhstan produced 5,279 tons of uranium in 2006, an increase of 21% above 2005. Output in 2007 is expected to reach 6,937 tons, an additional rise of 31%. KazAtomProm has set forth lofty mid-term production goals. In an April 2007 interview with a Kazakhstani newspaper, Dzhakishev announced that KazAtomProm's uranium production would reach 18,000 tons by 2010. In 2004, Dzhakishev explained, KazAtomProm had announced a 2010 target of 15,000 tons, but "we recently reviewed our plans and raised the bar a little more." Dzhakishev has also articulated the related goal of transforming KazAtomProm into the world's largest uranium producing company in the same time frame. (According to the World Nuclear Association, KazAtomProm currently ranks a distant second to Canada's CAMECO.) In order to realize these production goals, KazAtomProm will depend heavily on newly-opened uranium mines, including Zarechnoye, Mynkuduk, Budenovskoye, and Kharasan.

GILMER